Section 03.02.01
HIGHER EDUCATION ASSISTANCE FUNDS

HIGHER EDUCATION ASSISTANCE FUND (HEAF)
ACCEPTABLE USE OF FUNDS

The Higher Education Assistance Fund (HEAF) was created as a counterpart to the Permanent University Fund by constitutional amendment (Article VII, Section 17) to the Texas Constitution in 1984. Since September 1, 1985, these funds have provided assistance to most public universities that were outside the University of Texas and Texas A&M Systems to acquire land; construct, equip, repair or rehabilitate buildings or other permanent improvements; and acquire capital equipment, library books, and library materials, subject to various expenditure restrictions.

Under the constitution, an annual appropriation of funds to eligible institutions is determined for each 10-year period (beginning 1985) and is subject to interim review and revision at the end of five years.

DEFINITIONS

Higher Education Assistance Fund (HEAF) – Appropriations that became available in 1985 through Constitutional Amendment to fund permanent capital improvements for most public universities. This term may refer either to HEAF Treasury Funds (funds reimbursed from the State HEAF appropriation for university expenditures) or HEAF Bond Funds (monies received through the issuance of bonds and secured by HEAF Treasury Funds).

Tangible Assets – For HEAF guidelines, assets that are intended for use in current or future operations and not for the purpose of resale. Tangible assets are relatively long lived, have physical substance and provide measurable future benefit to the University. "Relatively long lived" means a useful life greater than one year.

Educational and General Use (E&G) – Buildings and facilities essential to or commonly associated with teaching, research, or the preservation of knowledge.

Auxiliary (facility or enterprise) – Buildings and facilities including but not limited to student dormitories, student centers, student lounges and stadiums. Also enterprises such as cafeterias, bookstores and similar activities.

GENERAL PRINCIPLES GUIDING THE USE OF HEAF FUNDS

HEAF funds are state funds and in addition to the general restrictions associated with state appropriated funds are subject to special restrictions guiding their use. The Division of Administration and Finance shall be the final authority on the institutional use of HEAF funds for questions or issues not answered here.

This section includes quoted excerpts from Texas Higher Education Coordinating Board HEAF Guidelines Letter dated November, 1988:

"This section of the guidelines articulate the general principles which support the specific provisions authorized under Article VII, Section 17. These principles are expressed as definitions of terms which are pertinent to the purpose of this document and relate to acquiring, constructing or improving tangible assets."

Tangible assets - are best defined by emphasizing their characteristics that are that the asset (a) be intended for use in current or future operations and not for the purpose of resale, (b) be relatively long lived, (c) have physical substance and (d) provide measurable future benefit to the entity. These characteristics are the foundation of the principle of determining the nature of an asset.

For purposes of these guidelines, costs of acquiring, constructing, or improving tangible assets include all directly related reasonable and legitimate costs, including salaries (except library salaries), incurred in placing an asset in the position where it is to be used and ready for productivity in the broad business sense. This principle is applicable whether performance is by university employees or by third parties.

The types of costs that are to be included in the total cost of an asset will vary depending upon the nature of the asset being acquired, whether purchased, constructed or improved, but the principles for identifying the cost of an asset are applicable to all acquisitions.

These guidelines relate to acquiring, constructing, or improving tangible assets, and not to the appropriate levels of capitalizing those assets on the universities' financial records. *Capitalized costs* are expenditures that are recorded to an asset account or to accumulated depreciation. All tangible assets are not capitalized because, in practice, capitalization of expenditures is not based solely on whether the property acquired meets the definition of a tangible fixed asset. Practical considerations which take into account minimum level dollar limitations influence whether an asset is capitalized or considered to be a current expense.

The following paragraphs are intended to define the nature of appropriated expenditures of Higher Education Assistance Funds. These definitions will include examples as needed to express the intent of these definitions; however, the list of examples should not be considered to be all-inclusive. As a means of further defining the nature of appropriated expenditures, descriptive commentary may be provided.

The first four sections below are applicable to HEAF bond proceeds. The fifth section is applicable to general revenue fund expenditures.

1. **Refunding bonds or notes issued under this section or prior law**

   Authority is given to the governing board of each institution covered by Article VII, Section 17 to issue bonds for the purpose of refunding outstanding bonds or notes which were issued under this section of the constitution or bonds which have been issued under prior laws. Only bond proceeds issued under this section can be used to refund bonds issued under prior law.

2. **Acquiring land with or without permanent improvements**

Land refers to the surface or crust of the earth which can be used to support structures, and may be used to grow crops, grass, shrubs and trees.

The cost of land can include the purchase price, commissions, fees for examining and recording titles, surveying, drainage costs, land clearing, demolition of existing improvements (less salvage), landfilling, grading, interest on mortgages accrued at the date of purchase, accrued and unpaid taxes at the date of purchase, and other costs incurred in acquiring the land.

3. **Constructing and equipping buildings and other permanent improvements**

Constructing and equipping defines the process of erecting buildings and of providing equipment which will assure that the buildings can be used for permanent improvements. This category includes additions to existing building and equipping of existing buildings.

Buildings are defined as roofed structures (whether by conventional means or by land covering underground structures) that house operations and include structures which are used for storage purposes. Additions to buildings meeting this definition are included in this category.

Other permanent improvements are defined as assets which enhance the quality of land or buildings or facilitate the use of land or buildings, and which have finite but extended lives.

Permanency is relative and should be interpreted in terms of the periods of usefulness. Only land can be considered to be permanent in any absolute sense.

Other permanent improvements can include such assets as paving; lighting; fences; sewers; electrical distribution systems; water systems; sewer systems; landscaping; air conditioning; elevators; vent hoods; energy management systems; mechanical, plumbing and electrical systems; voice-and-data systems; computing systems and the like.

While individual components of these permanent improvements may be moved, upgraded, or replaced from time to time, the systems themselves are not by design mobile. Therefore, systems which, in normal usage, could be moved from building to building or from room to room are not included as permanent improvements.

The cost of buildings can include the original contract price or cost of construction (see below); expenses for remodeling, reconditioning or altering a purchased building to make it suitable for the purpose for which it was acquired; payment of unpaid or accrued taxes on the building to the date of purchase; cancellation or buy-out of existing leases and other costs related to placing the asset into operation.

Construction costs of buildings and other permanent improvements can include the completed project cost; cost of excavation or grading or filling of land for a specific building; expenses incurred for the preparation of plans, specifications, blueprints and so on; cost of building permits; architects', engineers', and/or management fees for design and supervision; legal fees; costs of temporary buildings used during construction and unanticipated costs such as rock blasting, piling, or relocation of the channel of an underground stream. Also includable are drainage costs, land clearing, and demolition of existing improvements.

Maintenance agreements which are purchased as part of the original acquisition are appropriate costs in this category, such as maintenance agreements for software application programs and operating systems, energy management systems and the like.

Equipping costs, fixed or movable, can include the original contract or invoice price; freight-in, import duties, handling and storage; specific in-transit insurance charges; sales, use and other taxes imposed on the acquisition; cost of site preparation; installation charges; charges for testing and preparation for use; and cost of reconditioning used items when purchased.

Maintenance agreements which are purchased as part of the original acquisition are appropriate costs in this category as are development costs of software application programs and operating systems.

4. **Major repairs or rehabilitation of buildings or other improvements**

Major repairs or rehabilitation of buildings or other improvements includes but is not limited to repairs, renovations, replacements or betterments which are normally expected to extend the useful life, to improve operating efficiency, to eliminate health and safety hazards, to correct structural or mechanical defects, to upgrade the quality of existing facilities, or convert these assets to more useful functions, but are not considered routine maintenance.

The cost of major repairs or rehabilitation of buildings or other improvements can include the contract price or cost of construction; and other costs that would be applicable to make the building or improvement suitable for its intended use. Examples of other costs can include those identified in item 3, above.

5. **Acquisition of capital equipment, library books and library materials**

Capital equipment is defined as fixed or moveable tangible assets to be used for operations, the benefits of which extend over more than one fiscal year. These assets may be acquired through purchases from an outside vendor or by construction or development by university employees. Computer software operating systems and application programs are considered capital equipment under this definition. The development, excluding routine maintenance, and acquisition of computer software are includable equipment costs.

Equipment costs may also include the original contract or invoice price; freight-in, import duties, handling and storage; specific in-transit insurance charges; sales, use and other taxes imposed on the acquisition; cost of site preparation ; installation charges; charges for testing and preparation for use; and cost of reconditioning used items when purchased. Maintenance agreements which are purchased as part of the original acquisition are appropriate costs in this category.

For the purposes of these guidelines, a library is defined as a collection of books and/or materials in locations approved by university administration which are accessible to the general university community.

A *library book* is literary composition bound into a separate volume, generally, identifiable as a separately copyrighted unit. Books should be distinguished from periodicals and journals.

Library materials are information sources other than books (either owned or accessed), which include journals, periodicals, microforms, audio/visual media, computer-based information, manuscripts, maps, documents and similar items which provide information essential to the learning process or which enhance the quality of university library programs.

The cost of library books and library materials can include the invoice price; freight-in, handling, and insurance costs; binding; electronic access charges; reproduction and like costs required to put these assets in place with the exception of library salaries."

More Excerpts

HEAF appropriated funds *may not be used as partial payment* for the acquisition of capital equipment to be used for *both* E&G and auxiliary purposes that are independent of: constructing and equipping buildings or other permanent improvements, major repairs and rehabilitation of buildings or other improvements. (A.G. Opinion JM 999)

HEAF Restrictions

The following is a listing of HEAF restrictions. This list is not intended to be comprehensive but includes common restrictions.

1. Office Supplies cannot be paid using HEAF funds.
2. Maintenance agreements and extended warranties not purchased as part of the original acquisition cannot be paid using HEAF funds.
3. Maintenance, minor repairs and operating expenses cannot be paid with HEAF funds.
4. Property insurance cannot be paid with HEAF funds.
5. HEAF allocations are budgeted for a specific fiscal year.

6. HEAF monies cannot be transferred to non-HEAF accounts and conversely, non-HEAF funds cannot be transferred into HEAF accounts.
7. Deviations from which HEAF funding was originally budgeted require the prior approval of the Vice President of Administration and Finance.
8. Systems which in normal usage could be moved from building to building or from room to room are not defined as permanent improvements.
9. Appropriated HEAF funds cannot be used for the full cost of renovations, construction and improvements for joint use activities, for example, an area used for both E&G and Auxiliary functions. HEAF funds may be used only for the proportional share of the E&G activity.
10. HEAF funds cannot be used for the purpose of constructing, equipping, repairing or rehabilitating buildings or other permanent improvements that are to be used for auxiliary functions.
11. Without the approval of the legislature, HEAF funds cannot be expended for acquiring land with or without permanent improvements for a branch of campus or educational center that is not a separate degree-granting institution created by general law.

HEAF Expenditures on Tangible Assets Upgrades

The use of HEAF funds for the purchase of upgrades to existing tangible assets, which may or may not have been originally capitalized, is allowable providing all of the following conditions are met:

- The upgrade cannot be a replacement part or repair
- The upgrade must add new or additional functionality
- The upgrade must have a useful life that exceeds one year
- The upgrade must cost more than $250.00 per unit

Allowable Object Codes

Not all object codes can be used to make purchases from HEAF. Object codes allowed are 5630, all 5700 object codes with the exception of 5755 and all 8000 object codes.